

**MINUTES OF JANUARY 9, 2014 RETIREMENT BOARD  
CITY OF ALEXANDRIA  
FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN  
INTERIM MEETING**

**PRESENT**

<u>Members</u>	<u>Others</u>
Michael Cross, <sup>2</sup> Secretary, (Fire)	Steven Bland, Retirement Administrator
Patrick Evans <sup>1</sup> (Fire)	Bryan Capelli, Retirement Specialist
Tom Gates, <sup>3</sup> Chairman, (Management)	Kadira Coley, Retirement Specialist
Jean Kelleher <sup>2</sup> (Management, Alternate)	
Al Tierney <sup>2</sup> (Police)	
Laura Triggs <sup>3</sup> (Management)	

Absent:

Shirl Mammarella <sup>3</sup> (Police, Alternate)

Ed Milner <sup>1</sup> (Police)

Rick Muse <sup>3</sup> (Fire, Alternate)

Morgan Routt (Management)

Nelsie Smith (Management)

Terms: 1/1/2014 – 12/31/2015

<sup>1</sup>Purchase of Service Credit Committee

<sup>2</sup>Technical Corrections and Plan Document Review Committee

<sup>3</sup>Vendor & Service Provider

**CALL TO ORDER**

Mr. Gates called the meeting to order at 8:39 AM on January 9, 2014.

**MEETING RECORD**

Mr. Cross distributed an updated version of the handout from the November 14, 2013 meeting titled “Firefighter and Police Officer Pension Board Portfolio Adjustment Timeline.” Mr. Cross noted that some items had been updated from the previous version.

There was a motion by Mr. Cross to

Approve the November 14, 2013 minutes with the proposed changes submitted by Mr. Cross.
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Ms. Triggs seconded the motion. The motion passed (6 – 0).

Ms. Kelleher made a motion to

Approve the December 19, 2014 minutes.

Mr. Cross seconded the motion. The motion passed (6 – 0).

## **ADMINISTRATOR’S REPORTS**

### **Regular Investment Reports**

Referring to page 19-20 of the board packet, staff said rebalancing from the December 19, 2013 meeting was complete. No rebalancing of the pension component is recommended at this time. Staff will rebalance the disability component as recommended on page 20.

Mr. Cross made a motion to

Amend the October 11, 2012 motion by Mr. Tierney and Ms. Triggs to: Provide standing approval for staff to draw assets from the ***liquid*** asset class most exceeding its target whenever funds need to be transferred to pay benefits.

Ms. Kelleher seconded the motion.

DISCUSSION: The word “liquid” is added because the most overweighted asset class may not be liquid, a necessity for rebalancing.

The motion passed (6 – 0).

Staff recommended a standing order permitting staff to rebalance up to 1% of the fund per month with the signature of the CFO (Ms. Triggs) required.

Mr. Tierney made a motion to

Approve the ability for staff to initiate rebalancing up to one time per month for up to 1% of the plan assets with the approval signature of the CFO.

Rebalancing is limited to months in which there is no board meeting prior to the 14<sup>th</sup> of the month or, if there is a board meeting, there is no quorum for a motion to rebalance.

Rebalancing of investments is the action of bringing a portfolio that has deviated away from one's target asset allocation back into line. Allocations of under-weighted securities can be purchased bringing them closer to their target allocation and over-weighted securities can be sold bringing them closer to their target allocation.

Ms. Triggs seconded the motion.

DISCUSSION: The December Board meeting took place on the 19th of the month and the managers of most comingled funds require notice by the 15th. Additionally we have needed rebalancing during a meeting where a quorum was not attained. In either of these two circumstances staff may not execute a recommended rebalancing. This standing motion would help to mitigate these two issues. Required rebalancing could still be executed.

The motion passed (6 – 0).

Referring to page 21 staff discussed the volatility report. Volatility can be measured in many ways. Using the simple measure of counting daily changes in the S&P500 of more than 1%, the report suggests 2013 had lower volatility than any year since 2006. Also, performance in 2013 was very strong. Staff believes low volatility and performance are linked.

Referring to page 22, staff said real estate was yielding 4% which is competitive with fixed income. Real estate adds a degree of inflation protection and potential capital gains. The downside is volatility that is greater than fixed income and less than equities. It is a reasonable compliment to fixed income.

Roughly a year ago PRISA was overweighted, (actual allocation exceeded the 5% target). Rebalancing real estate is very cumbersome. Staff recommended distributions be taken in cash rather than reinvested. Since that time equities have had a stellar year and Real Estate is now underweighted (below the 5% target allocation). Staff recommended the Board approve the reinvestment of PRISA distributions. Board members asked that staff bring back a revised motion and updated Investment Policy Statement that puts a cap on when reinvestment in real estate should occur.

Page 23 of the packet addressed timber. Initial distributions have been modest. Hancock recently reported that their distributions are expected to be significantly larger beginning in 2014.

### Other Items

#### Education: conferences, seminars and training

Staff will explore the possibility of working with the International Foundation of Employee Benefit Plan (IFEBC) to provide local training. The IFEBC sponsors the CAPPP class that several trustees have attended and enthusiastically endorsed. The goal is to have a common effort from local public pension boards such as Fairfax, Arlington, and the D.C. area pool resources and jointly host the sessions. Staff was encouraged to pursue this.

#### Vendor Contracts

Page 25 is a list of vendors, when their contracts were signed, their expiration, and any extensions or options.

Staff suggested the Vendor & Service Provider Committee survey trustees, staff, investment managers, and other vendors to determine their satisfaction with vendor performance.

Mr. Tierney made a motion to:

Have the Plan pay to send Mr. Cross to the Wharton Investment class in San Francisco in July 2014.

Ms. Triggs seconded the motion. The motion passed (6 – 0).

## **OLD BUSINESS**

### **Calendar & Schedule of topics for 2014**

The calendar on page 27 provides a meeting schedule and tentative list of topics for 2014. The proposed educational topics for the June 12<sup>th</sup> board retreat were approved. Herndon is invited to the February Due Diligence Meeting.

There was a discussion of the frequency of investment manager meetings. The consensus is to meet with a limited number of managers each year. Prioritizing those manager meetings might be based on the size of the plan's assets under management, performance, time elapsed since the last meeting, or the clarity of their investment process. Five such manager meetings are scheduled for the four quarterly due diligence meetings plus the board Retreat. The Board also expressed a desire to see each manager at least once every 3 years.

Additionally, staff would meet with other managers not invited to one of the five meetings. Trustees should be invited to these meetings.

Mr. Tierney asked that the Active/Passive discussion be included as a topic in the 2014 calendar. It will be placed on the June Board Retreat.

### **Update on Tactical Asset Allocation**

Dahab Associates reported to staff that they had received many inquiries about the Global Tactical Asset Allocation RFP. Most managers would turn their responses in at the last moment so that they could submit the most current data.

### **Investment Strategy**

Page 29 is essentially a table of contents that introduces background information for a discussion of Investment Strategy.

Pages 30 through 32 review the efficient frontier. The efficient frontier is a pictorial representation of the optimal output of an asset allocation study. Just like the asset allocation model itself, it is no better,

and no worse, than the assumptions used. Staff emphasized, the efficient frontier was to help conceptualize the idea of optimization. The actual work is done in the asset allocation program itself.

There is no compelling reason to add an asset class unless it expands the efficient frontier. Alternatively, if the addition of an asset class provides better risk/return possibilities than were available without that asset, there is a very compelling argument to include that asset in the portfolio.

The efficient frontier provides a qualitative confirmation of an additional asset being beneficial. However, it does quantitatively indicate how much of the asset should be added.

Page 33 and 34 are charts using Price to Earnings (P/E) ratios as predictors of future returns. Both the traditional P/E ratio and Robert Shiller's CAPE ratio suggest that at this time domestic equities are on the expensive side.

Pages 35 through 42 are redistributed from an earlier board meeting. Page 35 creates a context for fixed income being an effective hedge against equity downturns. The 1973 and 1987 equity collapses were accompanied by fixed income market declines. However, in 2000 and 2008, stock and bond markets moved in opposite directions. The rightmost portion of the table contrasts portfolio performance in these two environments.

Page 36 models portfolio performance in market declines with the current portfolio as well as one with less equity weighting. There are two variations, one with bond prices declining, the other with them increasing.

Pages 37 – 40 compare and contrast hedging equities directly with short funds, and diversifying with low correlation assets. Generally, staff prefers to use assets with low correlations.

Page 41 includes a set of ideas staff believes are important to go into an investment strategy. Staff referenced page 35 and tied this to the fourth strategic idea. In defending against losses in an equity market meltdown, it is important to spread our non-equity funds into more than one basket, and not overly rely on one asset class, such as domestic fixed income.

Page 43 discusses the All-Weather portfolio and a variation. The Permanent Portfolio by Harry Browne anticipates four economic environments and invests for each of them with a constant allocation of 25%. This has produced good results with a very fine Sharpe Ratio. The All Weather Portfolio is run by Bridgewater, a hedge fund. They have tweaked the Permanent Portfolio to create more flexibility and have also had good results.

The point of the discussion is to highlight preparation for multiple investment climates. Staff does not endorse literally a 25% commitment to each of the four buckets.

Pages 44 through 47 address liabilities. Page 44 demonstrates that as the plan matures and approaches a level ratio of retirees to actives the fund will be at more investment risk. Pages 45 through 47 demonstrate the link between above expected salary inflation and the need for above expected investment earnings.

Mr. Tierney and Mr. Cross requested that the Investment Strategy discussion be continued at a future meeting that the investment consultant attends.

Mr. Tierney requested a demonstration of how expanding the investment universe (the efficient frontier) can simultaneously lead to higher returns and lower risk.

## **NEW BUSINESS**

There was no new business.

## **NEXT MEETINGS**

1. Thurs., February 13<sup>th</sup> 8:30 AM Council Workroom, Joint Due Diligence Meeting, **NOTE LOCATION**
2. Thurs., March 13<sup>th</sup> 8:30 AM, Sister Cities Room 1101, Interim Meeting

## **ADJOURNMENT**

The meeting adjourned at 11:10 AM.

## **HANDOUTS**

Distributed to Board members in the Board Packet:

Agenda
Minutes of Prior Meeting - November 2013 [1(a)]
Minutes of Prior Meeting - December 2013 [1(b)]
Monthly Investment & Rebalancing Report [2(a)(i)]
Volatility Report [2(a)(ii)]
Real Estate Report Cash Flows [2(a)(iv)]
Timber Report [2(a)(v)]
Administrator's Follow-Up Items Report [2(b)(ii)]
Vendor Contract Terms [2(b)(ii)(2)]
Recommended Motions & Action Items [2(c)]
2014 Board Meeting Planning [3(a)]
Investment Strategy Overview [3(c) – Exhibit 1]
Investment Strategy – Efficient Frontier [3(c) – Exhibit 2]

Investment Strategy – CAPE P/E Ratio [3(c) – Exhibit 3]
Investment Strategy – Equity Exposure [3(c) – Exhibit 4]
Investment Strategy – All Weather Portfolios [3(c) – Exhibit 5]
Investment Strategy – Liabilities/Benefits [3(c) – Exhibit 6]
Investment Strategy – Impact of Salary & Investment Assumptions [3(c) – Exhibit 7]

Distributed at the meeting:

1. Firefighter and Police Officer Pension Board Portfolio Adjustment Timeline – distributed by Mr. Michael Cross
2. Changes to the November 14, 2013 minutes – distributed by Mr. Michael Cross